

This article continues the annual series of estimates of the United Kingdom's external assets and liabilities, in sterling and foreign currencies, and gives figures for the end of 1975. These are shown in Table E, with notes and definitions for the main items given at the end. The article generally follows the same pattern as in previous years, but two changes should be noted. The first concerns the valuation of both official reserves and inter-government loans to the United Kingdom. Hitherto, both these items (unlike most other figures in this series) have been converted into sterling at parity or middle rates. But with the depreciation of the pound, this method of conversion has increasingly understated the sterling value of these items. Accordingly, for the purposes of this article, the reserves [1] and inter-government loans to the United Kingdom have been converted into sterling at middle market end-year rates; and this has increased the figures for the United Kingdom's net external assets by some £200 million at the end of both 1974 and 1975. The second change is to show public sector foreign currency borrowing under the Treasury's exchange cover schemes separately under 'official financing liabilities', in line with the way in which the balance of payments accounts are now presented: borrowing through UK banks had previously been included within UK banks' liabilities in foreign currencies, and direct borrowing either within foreign currency securities issued, or other borrowing abroad, by public corporations and local authorities.

Otherwise, the compilation and presentation are identical to those in earlier articles. Assets and liabilities are classified as 'public sector' or 'private sector' according to the status of the domestic creditor or debtor. Private sector items are grouped under the headings 'investment' and 'banking and commercial'. The limitations of an inventory of this nature must again be stressed: these stem partly from problems of identification and partly from difficulties in valuing investments. This is particularly true of portfolio investment, where the estimates should be regarded only as broad indications of magnitude.

Summary

At the end of 1975 the total value of identified UK external assets exceeded the total value of external liabilities by over £1,750 million. The net external assets of the private sector are estimated to have risen by £450 million to £7,625 million, but the net external liabilities of the public sector rose by some £1,750 million, to £5,865 million. The fall in total net external assets over the year was not very different from the balance of payments deficit on current account of about £1,700 million. But this is largely coincidental, because the inventory figures are adjusted for changes in the value of outstanding assets and liabilities, whereas the balance of payments estimates record transactions without such adjustments. Furthermore, the balance of payments accounts include a very large positive balancing item of some £1,000 million, much of which no doubt represents unidentified capital inflows not yet included in the inventory figures.

Private sector

The net external assets of the private sector rose by £450 million, after declining by £2,200 million in 1974. The rise was wholly accounted for by the 'investment' figures: 'banking and commercial' claims and liabilities each rose by a similar amount.

The book value of *UK direct investment abroad* rose by as much as £1,720 million, but after allowing as far as possible for changes in valuation stemming from the depreciation of sterling, the increase was a

Table A
Net external assets/liabilities (-): summary

£ millions	End-1974	End-1975
Investment	8,680	9,305
Banking and commercial	-1,505	-1,680
Net external assets of the private sector	7,175	7,625
Public sector (other than reserves and other official financing)	-4,130	-4,200
Reserves and other official financing	20	-1,665
Net external liabilities of the public sector	-4,110	-5,865
Net external assets of the United Kingdom	3,065	1,760

[1] Apart from gold, which is still valued at the official price.

little over £1,000 million. Of this total – which included no large individual investments – some £300 million was financed through foreign currency borrowing, either direct from abroad or through UK banks, and the rest from retained profits. *Overseas direct investment in the United Kingdom* rose by a comparatively modest £430 million, of which about £260 million represented unremitted profits – slightly less than in each of the previous two years.

Despite the nationalisation of certain assets, *UK oil companies' net assets abroad* rose by about £500 million, mainly reflecting increased investment in overseas subsidiaries in Alaska and elsewhere. *Overseas oil companies' net assets in the United Kingdom* rose by about £800 million, most of which was associated with the development of North Sea oil and gas resources.

There was a considerable change in the factors affecting *UK portfolio investment overseas* last year. In 1974, the depressed state of most overseas stock markets, combined with heavy selling, had reduced the value of portfolios by some £2,850 million. But in 1975 there was very little disinvestment, stock market prices generally recovered, and the sterling value of foreign currency securities was enhanced by the pound's depreciation: the value of UK portfolios accordingly increased by some £1,150 million. However, this was more than offset by the rise in *overseas portfolio investment in UK companies' sterling securities* reflecting the much stronger recovery in the UK stock market. The international bond market was again little used by UK companies, which raised just under £80 million; but higher prices and sterling's depreciation added a further £100 million to liabilities. New *direct borrowing abroad by UK companies* rose by less than £200 million (of which a quarter was for domestic use).

Net '*banking and commercial*' liabilities rose by £175 million, to £1,680 million. The euro-currency markets recovered strongly in 1975 and *UK banks' foreign currency assets and liabilities* each rose by around £15,000 million, of which some two thirds represented an increase in business, and the remainder a rise in the sterling value of outstanding balances. Within the banks' net external liabilities in foreign currencies, the private sector borrowed £165 million (net) to finance direct investment abroad. Borrowing for portfolio investment was wholly offset by repayments of earlier loans. The remaining tranche of the \$2.5 billion syndicated loan to the Government was drawn in the first quarter; as in 1974, the drawing has been treated as an 'official financing' item, and the UK banks' share has been excluded from their foreign currency liabilities. As mentioned earlier, lending to other public sector bodies under the Treasury's exchange cover schemes has also been treated in this way.

Although *sterling liabilities of UK banks* rose by about £500 million (of which £180 million resulted from improvements in the coverage of reporting by banks), this was more than offset by an increase in sterling claims, particularly in *commercial bills discounted (including acceptances)*.

Public sector

The net external liabilities of the public sector – other than reserves and official financing items [1] – rose by some £70 million, after increasing by over £500 million in 1974. Net indebtedness in respect of inter-government loans rose by nearly £100 million, but entirely because of the higher sterling value of outstanding currency liabilities: the United Kingdom in fact repaid part of its long-term debts during the year, and also lent more, mainly under the aid programme. The value of British government stocks held abroad rose by £350 million in 1975: higher prices more than offset net sales by both monetary

[1] Including foreign currency borrowing by public sector bodies under the Treasury's exchange cover schemes (see Table D).

Table B
Portfolio investment

£ millions	UK investment overseas	Overseas investment in UK companies' securities	
		Sterling	Foreign currency
Market value:			
End-1974	5,470	1,150	450
End-1975	6,625	2,350	605
Change in 1975	+1,155	+1,200	+155
of which:			
Transactions	- 20	- 25	+ 55
Valuation (including currency adjustment)	+1,175	+1,225	+100

Table C
Overseas investment in British government stocks

£ millions	By	
	overseas monetary authorities	By other holders
Market value:		
End-1974	1,055	830
End-1975	1,145	1,090
Change in 1975	+ 90	+ 260
of which:		
Transactions	- 15	- 10
Valuation	+ 105	+ 270

Table D
Foreign currency borrowing by public sector bodies
under the exchange cover schemes

£ millions	1972	1973	1974	1975
Foreign currency borrowed through				
UK banks by:				
Public corporations	—	782	1,097	1,274
Local authorities	12	72	343	398
Foreign currency securities issued by:				
Public corporations	71	96	334	581
Local authorities	—	108	103	156
Other borrowing abroad by:				
Public corporations	84	144	373	674
Local authorities	7	15	49	47
Total	174	1,217	2,299	3,130

authorities and other overseas holders. Oil-exporting countries had a much smaller surplus to invest during the year; and although they bought £200 million of stock, they were also largely responsible for the sharp reduction of £465 million in overseas holdings of Treasury bills.

'Official financing liabilities' exceeded the official reserves by over £1,650 million at the end of 1975: the reserves fell by over £250 million to £2,698 million, while liabilities rose by some £1,430 million to £4,365 million, partly because of new borrowing but also because the depreciation of the pound increased the sterling value of foreign currency liabilities. The final drawing on the Government's \$2.5 billion euro-currency loan added some £425 million to liabilities, but by the end of the year the sterling value of the borrowing had risen by £600 million. Similarly, net new borrowing by the rest of the public sector (all by public corporations) amounted to some £400 million during the year, but the sterling value of outstanding liabilities rose by over £800 million (see Table D). Higher prices added an estimated £100 million to the value of bond issues; the remainder was accounted for by the depreciation of sterling. Some 60% of the new borrowing was from the European Investment Bank and the European Coal and Steel Community, with the rest made up of issues privately placed.

Notes and definitions

Assets and liabilities denominated in overseas currencies are generally valued at the exchange rates ruling at the time. All sub-totals, and many of the individual items, are rounded to the nearest £5 million.

Assets

Private sector

Direct investment

This represents investment by UK companies in their overseas branches, subsidiaries, and associates. The figures are based on Department of Industry surveys which relate to total net asset values attributable to investing companies, i.e. book values of fixed assets less accumulated depreciation provisions, plus current assets, less current liabilities. Book values of fixed assets acquired some years ago may differ considerably from current market or replacement values, and in individual cases may be quite unrealistic.

Oil companies' net assets abroad

The estimates are approximate book values of the net external assets of UK oil companies, and include the Shell Transport and Trading Company's 40% share of the net assets of the Royal Dutch/Shell Group outside the United Kingdom. The treatment of fixed assets varies, and a large part may not have been revalued to take account of changes in exchange rates.

Portfolio investment

Estimates of the value of UK portfolio investment overseas are based on surveys and exchange control information compiled mainly for measuring capital flows; broad adjustments have been made to allow for deficiencies of coverage, and changes in the market values resulting from price fluctuations have been estimated. The resultant total is accordingly a very precarious estimate, the full composition and geographical distribution of which are not known.

UK banks' assets

The assets included in this group comprise, in the main, the external claims of banks and certain other financial institutions on non-residents. The coverage and consistency of reporting were improved with effect from end-1974. 'Commercial bills discounted (including acceptances)' does not include bills drawn by UK residents and lodged with banks for collection; these are covered by 'suppliers' trade credit on exports'.

Suppliers' trade credit on exports

This comprises trade credit extended by UK traders to overseas concerns other than affiliates or parent companies. Trade credit extended to parent companies and affiliates overseas is included under direct investment.

Other identified assets held abroad by UK companies

These represent the working balances of various UK companies held direct with banks abroad. The figures are partly estimated.

Public sector

Official reserves

Since July 1972 includes the reserve position in the International Monetary Fund. Except for gold, which is still valued at the official price, the reserves have been converted into sterling at middle market end-year rates.

Other official assets

These comprise other overseas assets of the central government and of such official organisations as the Commonwealth Development Corporation and the UK Atomic Energy Authority.

Liabilities

Private sector

Direct investment

This represents investment by companies incorporated abroad in their UK branches, subsidiaries, and associates. The estimates relate to book values and are comparable with those for outward direct investment.

Overseas oil companies' net assets in the United Kingdom

The estimated book value of assets includes the 60% share of the net assets of the Royal Dutch/Shell Group in the United Kingdom owned by the Royal Dutch Petroleum Company.

Portfolio investment in UK companies' sterling securities

Estimates of market value are derived from a Department of Industry inquiry based on company registers as at 1970, adjusted for subsequent cash flows and estimated changes in market values resulting from price fluctuations. The figures are, therefore, only approximate.

Portfolio investment in UK companies' foreign currency securities
Issues abroad by oil companies are not included: they are deducted instead from 'oil companies' net assets abroad'.

Direct borrowing abroad by UK companies

The figures for this borrowing outside the Scheduled Territories – whether for the purchase of foreign currency securities, or direct investment abroad, or for use in the United Kingdom – are derived from information supplied to the UK exchange control. Borrowing of overseas currencies from banks in the United Kingdom is excluded because some of the overseas currency deposits which are being on lent originated in the United Kingdom, while those which originated abroad are reflected in the totals of UK banks' external liabilities in overseas currencies.

UK banks' liabilities

These figures, which relate to banks and certain other financial institutions, are in line with the figures now included in Tables 20 and 21 of the statistical annex, except that borrowing by UK banks to provide the Government's \$2.5 billion loan, and loans to other public sector bodies under the Treasury's exchange cover schemes, are included in 'official financing liabilities'. The coverage and consistency of reporting were improved with effect from end-1974. Commercial bills for imports drawn on UK residents and lodged with UK banks by non-residents are included in 'suppliers' trade credit on imports'.

Suppliers' trade credit on imports

This comprises trade credit received on imports from non-residents, other than affiliates or parents. Trade credit received from affiliates or parents overseas is included under direct investment.

Public sector

British government stocks

The figures comprise British government and government-guaranteed stocks. The market values are estimated from an analysis of the stock registers at the Bank of England. No detailed geographical distribution is available. Overseas monetary authorities comprise central monetary institutions and international organisations (other than the IMF).

Local authorities' securities and mortgages

The figures relate mainly to amounts held direct by non-residents or lodged with the Crown Agents and banks in the United Kingdom. Information regarding holdings through other UK agents is not available.

Foreign currency securities issued by public corporations and local authorities

These figures represent issues outstanding which are not covered by the Treasury's exchange cover schemes. Each issue has been valued at the end-year market price and then converted into sterling at middle market end-year rates. Any holdings of public sector foreign currency bonds by UK residents have been excluded.

Other borrowing abroad from banks etc. by public corporations and local authorities

These figures represent borrowings, net of repayments, which are not covered by the Treasury's exchange cover schemes, expressed in sterling at end-year exchange rates. Any foreign currency borrowing from UK banks is excluded.

Net drawings on the IMF

Comprises drawings on the International Monetary Fund, less repayments, less other countries' net purchases of sterling from the Fund. Sterling liabilities to the IMF resulting from the UK sterling subscription are excluded altogether, as is the sterling subscription from the assets side.

Foreign currency borrowing by the Government

This represents drawings under the \$2.5 billion facility announced in the March 1974 Budget, and includes borrowing from both UK and overseas banks. Total drawings have been valued at the middle market end-year rate.

Foreign currency borrowing by public sector bodies under the exchange cover schemes

This includes foreign currency borrowed through UK banks, the issue of foreign currency securities, and other borrowing abroad from banks etc., by public corporations and local authorities: details are given in Table D. Each issue has been valued at the end-year market price. Any holdings of public sector foreign currency bonds by UK residents have been excluded. Conversions into sterling are at middle market end-year rates.

Table E
UK external assets and liabilities

£ millions

External assets

End: 1972 | 1973 | 1974 | 1975

Private sector

Private UK investment abroad:

Direct investment (excluding oil, insurance and banking)[a]	7,860	9,975	11,140	12,860
Oil companies' net assets abroad[a]	2,250	2,600	2,700	3,200
Banks' and insurance companies' direct investment in the United States[b]	680	655	600	715
Portfolio investment[c]	9,490	8,320	5,470	6,625

Total private investment abroad 20,280 21,550 19,910 23,400

UK banks' assets:

Advances and overdrafts in:

Sterling	609	628	817	838
Foreign currencies	23,579	35,719	43,016	58,155
Commercial bills discounted (including acceptances)	2,593	3,037	3,810	4,391
Suppliers' trade credit on exports	1,590	1,866	2,137	2,267
Advance and progress payments on imports by UK businesses	150	189	223	185
Other identified assets held abroad by UK companies	120	235	270	165

Total banking and commercial claims 28,640 41,675 50,275 66,000

Total external assets of the private sector 48,920 63,225 70,185 89,400

Public sector

Inter-government loans by the United Kingdom	1,015	1,074	1,148	1,254
Subscriptions to international financial organisations (excluding the IMF)	364	448	554	632
Government holdings of Suez Finance Company shares[c]	25	25	15	30
Other official assets	212	225	234	250

Total public sector lending etc. 1,615 1,770 1,950 2,165

Total official reserves[d]

2,405 2,795 2,955 2,700

Total external assets of the public sector 4,020 4,565 4,905 4,865

Total of identified external assets 52,940 67,790 75,090 94,265

- nil or less than £½ million.

[a] Estimated book value of net assets.

[b] Derived from US Department of Commerce estimates; these include market valuation of securities held by insurance companies.

[c] At estimated market value.

[d] Official reserves were redefined in July 1972 to include the reserve position in the IMF.

External liabilities

End: 1972 | 1973 | 1974 | 1975

Private sector

Overseas investment in the UK private sector:				
Direct investment (excluding oil, insurance and banking)[a]	4,115	4,705	5,320	5,750
Overseas oil companies' net assets in the United Kingdom[a]	1,700	2,100	2,900	3,700
Portfolio investment in UK companies' sterling securities[c]	2,950	2,100	1,150	2,350
Portfolio investment in UK companies' foreign currency securities[c]	420	540	450	605
Direct borrowing abroad by UK companies	725	1,105	1,410	1,690
Total overseas investment in the private sector	9,910	10,550	11,230	14,095
UK banks' liabilities in:				
Sterling	3,052	3,310	4,082	4,567
Foreign currencies[e]	25,448	38,163	45,505	60,702
Overseas sterling deposits with finance houses	22	16	16	18
Suppliers' trade credit on imports	882	1,178	1,302	1,352
Advance and progress payments on exports by overseas customers	500	641	874	1,040
Total banking and commercial liabilities	29,905	43,310	51,780	67,680
Total external liabilities of the private sector	39,815	53,860	63,010	81,775

Public sector

Inter-government loans to the United Kingdom	2,000	1,928	1,822	2,021
Overseas investment in the UK public sector:				
British government stocks held by:[c]				
Overseas monetary authorities	1,280	1,230	1,055	1,145
Others	980	860	830	1,090
Local authorities' securities and mortgages	75	110	100	100
Foreign currency securities issued by:				
Public corporations[c] [f]	13	66	141	174
Local authorities[c] [f]	-	33	35	45
Other borrowing abroad by:				
Public corporations[f]	8	24	96	163
Local authorities[f]	-	-	3	3
Other public sector capital:				
Overseas holdings of Treasury bills and notes[g]	1,001	678	1,752	1,288
Overseas deposits with local authorities	262	412	247	334
Total public sector borrowing (other than official financing)	5,560	5,340	6,080	6,365
Official financing liabilities:				
Net drawings on the IMF excluding gold tranche*	-	-	-	-
Foreign currency borrowing by the Government	-	-	638	1,236
Foreign currency borrowing by public sector bodies under the exchange cover schemes	174	1,217	2,299	3,130
Total official financing liabilities	175	1,215	2,935	4,365
Total external liabilities of the public sector	5,795	6,555	9,015	10,730
Total of identified external liabilities	45,610	60,415	72,025	92,505

*Total net drawings on the IMF
Gold tranche

[e] Excludes borrowing by UK banks on behalf of the Government and of other public bodies under the Treasury's exchange cover schemes, which is included under official financing liabilities.

[f] Excludes borrowing under the Treasury's exchange cover schemes.

[g] Excludes official financing liabilities.